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# Thailand

# Dairy and Products

# Annual

# 2002

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**Report Highlights:**

The report contains the situation and outlook of fluid milk, nonfat dry milk, and whole milk powder, in 2002 and 2003.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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**Summary**

Despite growing domestic raw milk production, the domestic supplies continue to meet only half of total fluid milk demand in 2002. The demand to import nonfat dry milk (NDM) is estimated to increase in 2002, following a modest growth in all dairy product sales. However, the actual amount of NDM imports for the whole year may be close to the 2001 level due to the uncertainty in the government's import quota allocation. Meanwhile, processors may switch to whole milk powder (WMP) imports in case that there is no additional quota for NDM in the last quarter of 2002. If this is the case, total WMP imports, despite being more costly than NDM imports, may increase by 5-10 percent over the 2001 level.

The United States market share in NDM imports into Thailand is less than 5 percent, due mainly to intense market competition from cheaper sources like Australia, New Zealand, the Czech Republic, and Poland. There are no imports of U.S. whole milk powder in 2002.

However, market opportunities for U.S. dairy products in Thailand will be in the value- added dairy ingredients, especially whey products, which are competitive against other supplying countries. The USDEC representative for Southeast Asia has successfully introduced these lower cost dairy ingredients to the Thai dairy industry in recent years.

## SECTION I Situation and Outlook

*Fluid Milk*

Thailand's domestic raw fluid milk production should continue to grow in 2002 (580,000 metric tons) and in 2003 (620,000 metric tons), because on-farm reproduction and a relatively good return from dairy farming encourage farmers to raise more cows. Despite a lack of land availability, most expanding dairy farms are purchasing roughage from the outside and/or increase the use of concentrate feed for their cows. While farm size is likely to gradually increase over the next 4-5 years, farm productivity may improve slowly due to a lack of proper farm management among most dairy farms. The average milk production per lactation is relatively low at 6,000-6,500 pounds/cow.

In general, the Royal Thai Government (RTG) will continue their support of domestic dairy farmers through the price guarantee program, a nonfat dairy milk (NDM) import quota allocation (subject to the importers/dairy product plants's domestic raw milk purchase), and the school milk program.

The guaranteed price at the factory, which has been determined by the RTG since 1998, is 12.50 baht/kg (about 13 U.S. cents/pound). This guaranteed price is subject to a 8.5% solid nonfat (SNF) content standard. Actual prices paid by the processors will be reduced from the guaranteed price by 0.10 baht for every 0.1% of SNF content below the standard. Average prices for raw fluid milk are currently about 11.00-11.50 baht/kg (11-12 US cents/pound). As compared to the average raw milk production cost of 9.00-10.00 baht/kg (including unpaid family labor cost), dairy farming is generally profitable.

In addition, suppliers/producers who are contracted for the school milk program are required to utilize domestic raw milk. the RTG's school milk program become a large contributor to fluid milk consumption (especially plain fluid type) and has played an important role in helping the Thai dairy industry offset the impact of the economic crisis on commercial fluid milk sales during the past 3-4 years. Although the government also faced the problem of a running budget deficit, its school milk program has been viable because it is considered a crucial tool to improve the malnutrition problem among young people (especially those in rural areas). Under this scheme, each student is currently allocated 200 cc. of fluid milk for 230 days per annum. After the budget for the Fiscal Year 2002 increased sharply (from 6.06 billion baht in FY 2001 to 7.80 billion baht), the amount of the budget would be fixed at 7.80 billion baht (approx. US$ 183 million) for the next few years, beginning in FY 2003. It is estimated that plain fluid milk demand from the school milk program is about 312,000 metric tons in 2002, which accounts for 47 percent of total plain fluid milk sales.

Despite the increasing raw milk production, domestic raw milk supplies currently meet only half of total processed fluid milk demand. Based on a recent survey by trade sources, the total market for processed fluid milk (including dairy-soya blend milk) is estimated at 1.22 billion liters (about 1.2 million tons equivalent) in 2002, up 6 percent from the previous year. Sales of processed plain fluid milk in 2002 are likely to grow 5 percent over the 2001 level, due mainly to an increased budget for the school milk program. Sales of yogurt drink (including cultured yogurt) in 2002 are estimated to grow further by 7 percent in response to increased popularity among young and senior people. Sales of dairy-soya blend milk has also increased by 8 percent in 2002, following greater health consciousness in favor of protein from vegetable sources.

In 2003 sales of all types of fluid milk should continue to grow due to a continued upward trend in consumption of yogurt and dairy-soya blend milk and possible increased exports of fluid milk. Following are the sales of fluid milk by type and the 2003 forecast:

| | **2000** | **2001** | **2002** | **2003** (forecast) |
|---|---|---|---|---|
| Plain Fluid Milk (mil. liters) | 632 | 626 | 660 | 670 |
| Drink Yogurt (mil. liters) | 283 | 308 | 330 | 350 |
| Dairy-Soya Blend Milk (mil. liters) | 170 | 212 | 230 | 260 |
| Total Sales (mil. liters) | 1,085 | 1,146 | 1,220 | 1,280 |

While Thailand does not import fluid milk, it does export processed fluid milk to Association of Southeast East Asian Nations (ASEAN) countries (such as Indonesia, Singapore, Philippines, Malaysia, etc.) and some middle east countries. According to trade sources, Thailand has a potential for increased exports to these countries in the near future because of price and quality competitiveness. Fluid milk exports are estimated to double from 8,323 tons in 2001 to 16,000-17,000 tons in 2002 (Table 2).

*Nonfat Dry Milk*

As Thailand does not manufacture nonfat dry milk (NDM), all consumption has been met by the imports. NDM imports parallel the market performance of fluid milk, condensed milk, yogurt, ice cream, bakery, and other dairy products. In addition, NDM imports are also determined by the government's NDM quota administration and its costs in relation to prices for domestic raw milk and imported whole milk powder (WMP).

A growth in dairy product sales should favor the NDM imports in 2002. This trend is reflected by a 40 percent increase over the first 8 months of 2002. However, the possible increase in actual imports through the whole year are still doubtful at the moment, because the national dairy cooperative has requested the government to hold the planned additional quota allocation of 18,000 tons, claiming that large processing plants refused to buy all domestic supplies in October. If the government bows to this request, total imports in 2002 may be close to those in 2001 which totaled 58,823 metric tons. Despite anticipation of continued growth in the dairy products market, the conservative administration of the import quota should limit NDM imports to 60,000-70,000 tons in 2003.

Thus far, Australia and New Zealand have been regular suppliers of NDM imported into Thailand, due to their price and quality competitiveness. The U.S. has captured only a small market share in the Thai market as its prices are normally uncompetitive, except when the Dairy Export Incentive Program (DEIP) is available. Due to BSE disease problems and uncertain supply availabilities, the EU's market share also dropped in recent years with substitution of the imports from Australia, New Zealand, and the Eastern European countries (such as the Czech Republic and Poland)

According to the Customs Department, NDM imports from Australia, New Zealand, the Czech Republic, and Poland in the first 8 months of 2002 (Jan-Aug) continued to increase at the expense of the EU countries and the U.S. The market share of these four countries is about 80 percent of total imports. The market share of the EU in the Thai market is estimated to be 7-8 percent in 2002. Imports of U.S. nonfat dry milk are still limited to 2,000-3,000 tons for the next few years, as the present import quota allocation system does not favor the sales of U.S. NDM under the DEIP program.

According to trade sources, the average C&F NDM prices quoted by Australia and New Zealand in the first three quarters (Jan-Sep) dropped from about US$ 2,000-2,200/mt in 2001 to US$ 1,200-1,300/mt, following weak global prices. Supplies from the EU were reportedly US$ 100-200/mt higher than those from Australia and New Zealand in 2002, due partly to the stronger Euro money against U.S. dollar. Trade sources also reported that NDM prices quoted by the Czech Republic and Poland are typically US$ 50-100/mt lower than Australian and New Zealand quotations.

As mentioned in previous annual reports, Thailand controls NDM imports through the quota allocation system which is subject to its WTO commitments. Thailand is scheduled to increase its minimum import quotas for nonfat dry milk from 45,000 tons in 1995 to 55,000 tons in 2004. The tariff rates for in-quota imports will be 20 percent from 1995 to 2004, while those for non-quota imports will be reduced from 237.6% in 1995 to 216.0% in 2004.

Although the RTG has allocated the TRQ import quota in an amount exceeding the WTO schedule, its practice of quota allocation created problems for the importers and dairy processors in two ways; i.e., an untimely quota allocation and a recent uncertainty in the amount of the whole-year import quota. In order to force dairy processing plants to use domestic raw milk, the government strategically delays announcement of quota allocation (normally divided into two slots). In addition, the RTG introduced the practice of additional quota allocation in 2001 as a criteria to obligate the use of local raw milk supply. In 2001, the RTG allocated the regular quota of 55,000 tons and divided the quota into two slots, of which the window periods for NDM shipments was January-June and July-December, respectively. An additional quota of 10,000 tons was allocated when there was a severe lack of local supplies. The RTG utilized the same practice again in 2002, by announcing the TRQ quota of 55,000 tons in the beginning of the year. In mid 2002, the government said it plans to allocate additional quota of 18,000 tons. However, this quota was withheld after the national dairy cooperative complained to the government about the prevailing raw milk surplus.

*Whole Milk Powder*

Whole milk powder (WMP) is mostly used for making ice cream, recombined fluid milk, yogurt, and bakery products. Like nonfat dry milk, Thailand does not produce dry whole milk powder at the moment.

Unlike nonfat dry milk, the government does not apply the tariff rate quota (TRQ) system for WMP. However, the government increased the tariff rate on WMP from 5% (which is equivalent to that applied for in-quota NDM imports) to 18% in 2000 in order to prevent substitution of WMP for NDM in several dairy products. As a result, WMP imports declined from 35,373 tons in 2000 to 29,217 tons in 2001. Like NDM imports, total WMP imports in 2002 remain in question due to an uncertainty in the governmental allocation of additional NDM import quota. If the government withholds this additional import quota in late 2002, dairy processors and importers may switch to WMP at the expense of NDM. If this is the case, WMP imports in 2002 may increase by 5-10 percent over the 2001 level.

Due to intense price competition, there are no imports of U.S. WMP in 2002. Major suppliers for WMP into Thailand in 2002 are New Zealand, Australia, and the Czech Republic, accounting for about three-quarters of total imports. Meanwhile, the EU market share in the Thai market is declining due to its less price competitiveness.

*Market Opportunities for U.S. Dairy Products*

There has not been a major change in market opportunities for U.S. dairy products from the previous reports. There is a niche market for value-added products. Most of the major dairy manufacturers have introduced value added products such as high-calcium/low-lactose/low-fat with added vitamins in milk, yogurt, and infant formula. Probiotics or healthy bacteria are also being heavily promoted, especially in cup yogurt.

Market opportunities for U.S. dairy products will be in the value-added dairy ingredients category such as whey protein concentrates, high calcium milk minerals, lactoferrin and lactoperoxidase. Lower cost dairy ingredients such as sweet whey powder, whey permeate and lactose are also needed to reduce production costs. The USDEC representative for Southeast Asia has been active in promoting U.S. dairy products in the region, especially dairy food ingredients, through its trade service, trade delegations to visit U.S. manufacturers, and various educational seminars. Because of these promotions, the U.S. has become the leading supplier of whey to Thailand since 1995. Its market share was about 50 percent in 2001 and 2002.

Some U.S. dairy products such as ice cream, NDM, and whey powder are also well known in Thailand. In general, importers, manufacturers and consumers are satisfied with the quality and value of U.S. dairy products. However, some negative views still exist about certain dairy products, especially dairy ingredients as follows: a) product inconsistency; b) availability considered unreliable; and c) poor packaging, compared to products from Europe, Australia, and New Zealand.

## SECTION II Statistical Tables

Table 1: PS&D Table for Fluid Milk

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Thailand | | | | | |
| Commodity | Dairy, Milk, Fluid | | | | (1000 HEAD)(1000 MT) | |
| | Revised2001 | | Preliminary2002 | | Forecast2003 | |
| | Old | New | Old | New | Old | New |
| Market Year Begin | 01/2001 | | 01/2002 | | 01/2003 | |
| Cows In Milk | 214 | 215 | 216 | 230 | 0 | 240 |
| Cows Milk Production | 469 | 530 | 480 | 580 | 0 | 620 |
| Other Milk Production | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Production | 469 | 530 | 480 | 580 | 0 | 620 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 469 | 530 | 480 | 580 | 0 | 620 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 9 | 0 | 16 | 0 | 20 |
| TOTAL Exports | 0 | 9 | 0 | 16 | 0 | 20 |
| Fluid Use Dom. Consum. | 439 | 476 | 450 | 514 | 0 | 550 |
| Factory Use Consum. | 30 | 45 | 30 | 50 | 0 | 50 |
| Feed Use Dom. Consum. | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Dom. Consumption | 469 | 521 | 480 | 564 | 0 | 600 |
| TOTAL DISTRIBUTION | 469 | 530 | 480 | 580 | 0 | 620 |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

Table 2: Exports of Fluid Milk

| | | | |
|---|---|---|---|
| Export Trade Matrix | | | |
| Country | Thailand | | |
| Commodity | Dairy, Milk, Fluid | | |
| Time period | Jan-Dec | Units: | Tons |
| Exports for: | 2001 | | 2002 |
| U.S. | 0 | U.S. | 0 |
| Others | | Others | |
| Cambodia | 2406 | Cambodia | 3017 |
| Myanmar | 609 | Myanmar | 263 |
| Indonesia | 3491 | Indonesia | 2695 |
| Malaysia | 121 | Malaysia | 27 |
| Singapore | 465 | Singapore | 671 |
| Philippines | 1115 | Philippines | 5779 |
| Hong Kong | 9 | Hong Kong | 0 |
| | | | |
| | | | |
| | | | |
| Total for Others | 8216 | | 12452 |
| Others not Listed | 107 | | 91 |
| Grand Total | 8323 | | 12543 |

Note: The period of exports in 2002 covers January-July.

Table 3: PS&D Table for Nonfat Dry Milk

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Thailand | | | | | |
| Commodity | Dairy, Milk, Nonfat Dry | | | | (1000 MT) | |
| | Revised2001 | | Preliminary2002 | | Forecast2003 | |
| | Old | New | Old | New | Old | New |
| Market Year Begin | 01/2001 | | 01/2002 | | 01/2003 | |
| Beginning Stocks | 11 | 11 | 5 | 12 | 5 | 12 |
| Production | 0 | 0 | 0 | 0 | 0 | 0 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 40 | 59 | 47 | 60 | 0 | 65 |
| TOTAL Imports | 40 | 59 | 47 | 67 | 0 | 73 |
| TOTAL SUPPLY | 51 | 70 | 52 | 79 | 5 | 85 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Human Dom. Consumption | 45 | 57 | 46 | 66 | 0 | 72 |
| Other Use, Losses | 1 | 1 | 1 | 1 | 0 | 1 |
| Total Dom. Consumption | 46 | 58 | 47 | 67 | 0 | 73 |
| TOTAL Use | 46 | 58 | 47 | 67 | 0 | 73 |
| Ending Stocks | 5 | 12 | 5 | 12 | 0 | 12 |
| TOTAL DISTRIBUTION | 51 | 70 | 52 | 79 | 0 | 85 |
| Calendar Yr. Imp. from U.S. | 2 | 3 | 2 | 1 | 0 | 1 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

Table 4: Imports of Nonfat Dry Milk

| | | | |
|---|---|---|---|
| Import Trade Matrix | | | |
| Country | Thailand | | |
| Commodity | Dairy, Milk, Nonfat Dry | | |
| Time period | Jan-Dec | Units: | Tons |
| Imports for: | 2001 | | 2002 |
| U.S. | 2781 | U.S. | 838 |
| Others | | Others | |
| Australia | 20364 | Australia | 17248 |
| Canada | 0 | Canada | 3200 |
| Czechs Rep. | 7413 | Czechs Rep. | 6655 |
| Germany | 2461 | Germany | 1158 |
| Finland | 1168 | Finland | 671 |
| Ireland | 2242 | Ireland | 506 |
| Netherlands | 2881 | Netherlands | 1573 |
| New Zealand | 13350 | New Zealand | 13130 |
| Poland | 4361 | Poland | 3310 |
| Belgium | 400 | Belgium | 0 |
| Total for Others | 54640 | | 47451 |
| Others not Listed | 1402 | | 1102 |
| Grand Total | 58823 | | 49391 |

Note: The period of exports in 2002 covers January-July.

Table 5: PS&D Table for Whole Milk Powder

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Thailand | | | | | |
| Commodity | Dairy, Dry Whole Milk Powder | | | | (1000 MT) | |
| | Revised2001 | | Preliminary2002 | | Forecast2003 | |
| | Old | New | Old | New | Old | New |
| Market Year Begin | 01/2001 | | 01/2002 | | 01/2003 | |
| Beginning Stocks | 6 | 8 | 5 | 6 | 5 | 6 |
| Production | 0 | 0 | 0 | 0 | 0 | 0 |
| Intra EC Imports | 7 | 0 | 7 | 0 | 0 | 0 |
| Other Imports | 23 | 29 | 25 | 32 | 0 | 34 |
| TOTAL Imports | 30 | 29 | 32 | 32 | 0 | 34 |
| TOTAL SUPPLY | 36 | 37 | 37 | 38 | 5 | 40 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Human Dom. Consumption | 30 | 30 | 31 | 31 | 0 | 32 |
| Other Use, Losses | 1 | 1 | 1 | 1 | 0 | 1 |
| Total Dom. Consumption | 31 | 31 | 32 | 32 | 0 | 33 |
| TOTAL Use | 31 | 31 | 32 | 32 | 0 | 33 |
| Ending Stocks | 5 | 6 | 5 | 6 | 0 | 7 |
| TOTAL DISTRIBUTION | 36 | 37 | 37 | 38 | 0 | 40 |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

Table 6: Imports of Whole Milk Powder

| | | | |
|---|---|---|---|
| Import Trade Matrix | | | |
| Country | Thailand | | |
| Commodity | Dairy, Dry Whole Milk Powder | | |
| Time period | Jan-Jul | Units: | Tons |
| Imports for: | 2001 | | 2002 |
| U.S. | 1 | U.S. | 0 |
| Others | | Others | |
| Australia | 5749 | Australia | 5396 |
| Czechs Rep. | 2293 | Czechs Rep. | 2143 |
| Germany | 80 | Germany | 10 |
| France | 62 | France | 12 |
| U.K. | 4924 | U.K. | 2120 |
| Netherlands | 2066 | Netherlands | 1250 |
| New Zealand | 12107 | New Zealand | 6742 |
| Denmark | 362 | Denmark | 294 |
| Ireland | 1100 | Ireland | 315 |
| | | | |
| Total for Others | 28743 | | 18282 |
| Others not Listed | 473 | | 917 |
| Grand Total | 29217 | | 19199 |

Note: The period of exports in 2001 covers January-July.